

China Phenomena and South Korean Turmoil: What's Wrong with Traditional Theories of Development?

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§1 Introduction

China has been, is, and will be challenging the rest of the world to diplomatic, military and other races, not to speak of economic competition. Multiple impacts of Chinese expansion seem to be posing a new problem, which might erode the fundamental premises of the traditional theories of economic development and social transformation. Needless to say, it is not only China itself but also its trading partners that are subject to compound influences of China's export-oriented development strategy and its surprising performance after the Cultural Revolution. Among the most seriously affected are Japan, North and South Korea, Taiwan, and the United States in alphabetical order.

In 2005, China eventually came to take the top seat of Japan's trade partners, replacing the position enjoyed by the United States over the long term of years. *Chugoku Gensho* (China Phenomena) is a Japanese phrase, coined to express the strong exporting and absorptive power of the Chinese economy.

Similarly, when the Chinese government started to apply the brakes on the overheating bubble economy in 2004, it meant a serious panic to the neighboring economies, especially to South Korea, which was the largest investor to China in that year. The South Korean media put it as *China Shock*, warning the nation against the Second Crisis succeeding the sour experience since the end of 1997.

The purpose of this paper is two-fold. We first examine the extent to which the existing theories of development can explain the China Phenomena and the China Shock, with occasional reference to Japan and Taiwan. Theoretical apparatus to be picked up here are, in the main, innovations, industrial structure, trade strategy, and the state-business relationship. We evaluate these topics from the institutionalists' point of view, and try to find out the missing routes of causalities. We then propose to reinterpret the sociological theory of crisis originally constructed by Juergen Habermas, in a way to conform to the transformation processes of the North-East Asian (NEA) societies. Rather than the original Habermasian framework which intends to deal with *Spaetkapitalismus* (matured capitalism), our tentative proposal here is to make use of his Trichotomy (economic, political, and socio-cultural subsystems), but modify the meaning of crisis and delete the adjective 'matured'.

§2 Changing Chinese Society

(1) Transition of Industrial Structure

The Colin Clark's Law seems to have been one of the most precious knowledge in the vast treasure-house of economic theories, which predicts that industrialization accompanies the transition of the central industry in an economy from the primary, and then the secondary, and finally the tertiary industry. Accumulated documents and controversies concerning the post-industrial societies have thrown serious doubts on this long-cherished tendency law, and, in these days, heavy reliance on the tertiary industry simply implies the industrial Hollowization (*Kogdonghwa* in Korean).

Surprisingly enough, the GDP share of manufacturing industry in China since 1978 has remained fairly stable (about 44%), and roughly a half percent decrease of the share of primary industry from the 30% level has been compensated by the corresponding increase in the tertiary industry's proportion. The same holds almost true for the employment structure, and the decrease from 70.5% (in 1978) to 49.1% (in 2003) of the primary industry' share contributed to the 'jumping' of the tertiary industry from 12.2% to 29.3% during the same period, leaving the secondary industry slightly increasing from 17.3% to 21.6%. This may contradicts the common image of the rapid industrialization in China, and the only possible interpretation of this fact would be such that continuous restructuring and innovations are going on at a dizzy speed within the secondary

industry. Similar picture in the South Korean manufacturing industry with stable GDP share and with decreasing employment share can be explained by the flight of domestic capital to China, as well as productivity increases through labor-saving technical progress. At any rate, suspicions on the validity of the law of transition of industrial structure leads us to the problem of innovations.

(2) Technological and Institutional Innovations

Usually, technology in the engineering sense becomes meaningful as technology in the economic contexts only if the former gets through the profitability tests. Ambiguity concerning technology in the latter sense comes from the fact that the contents of the term depend on the levels of abstraction and the logical contexts in which the term is employed. In some cases, it merely means a mechanical apparatus in an individual firm, and in other cases it includes managerial, informational and institutional factors, and even the governmental technology policies in the macroeconomic contest.

Technical progress (improvement), or to put it in a more sophisticated way, innovation in the widest sense should be treated as a notion including improvement in market conditions, institutional arrangements, and so on. This is why we distinguish two types of innovations, i.e., technological innovation and institutional innovation, with all the miscellaneous elements other than technology in the engineering sense put together in the

word 'institution'

Among the familiar theories frequently recommended to developing countries is the appropriate (or intermediate) technology thesis, which has been derived from the experience of the Japanese textile and spinning industries. The essence of this prescription is to adopt such technology that conforms to the relative intensity of initial endowments of labor and capital. A possible ill-tempered interpretation would be that developing countries should not be so eager to obtain the up-to-date precious technologies and be content with buying the second-hand (intermediate) machines and know-how. Needless to say, the appropriateness of this recommendation depends on the engineering relationship between the quality of the products in question and the capital intensity on one hand, and the markets for which the products are intended to go, on the other.

As the Korean and Taiwanese experiences reveal, the applicability of this theory would be limited to such products that, with relatively labor-intensive technique, do not suffer from serious damages in quality and maintain the competitive edges in the world market, or those specific items that can enjoy the monopolistic position in the domestic market by some governmental protective measures. Actually, empirical studies on the applicability of this theory to China are equally divided between ayes and noes, and the results differ from industry and industry (Otsuka et.al. [1998]).

(3) Innovation and Accumulation

Economists seem to have been too much accustomed to talking about ‘technology’ with excessive reliance on the neoclassical concept of aggregate production function, which relates aggregate income with factors of production, usually capital and labor. In this theoretical framework, technical progress is measured as residuals other than the contributions by the factor inputs, as suggested by the growth accounting formula (Total Factor Productivity, TFP). Criticism by Paul Krugman on Asian economies also rested on this line of argument, and the productivity increase in these countries was attributed not to the outcome of technical progress but to the results of mass inputs of these factors (Krugman [1994]). Controversies over this thesis were forced to be entangled, partly because of the East Asian Financial Crisis in 1997, and partly because of the shifted points at issue by Krugman himself. Here again, empirical follow-up surveys failed at obtaining a consentaneous answer.

A reflection on the fictitious aspect of the concept of production function, and it is easy to realize that the TFP formula employed in the empirical studies do not necessarily extract the ‘pure’ contributions of technological investment. What does the TFP growth actually measure, and what part of the growth should be attributed to the ‘technical’ advancement in what sense? For example, the Austrian approaches to the heterogeneity of capital stock, and especially the Schumpeterian insights into the relationship between accumulation and

innovation have posed questions on the homogeneity assumptions in the traditional growth theories. Thanks to the recent efforts by growth theorists, some of these difficulties are partially taken into account in the Endogenous Growth Models (Aghion & Howitt [1999]). In view of the complicated causal routes between productivity and factor inputs, however, the results obtained there are far from satisfactory.

(4) Flying Gees in the Chinese Sky

Just as the industrialization processes in Germany, Russia and Japan were explained by the transmission of 'industrial revolution', so it was once customary to liken the successive industrialization process of East Asian economies to a chase game, with Japan as a top runner and Asian NIES and ASEAN countries as catching-up followers. The story does not end up here, and the Acts II and III are now on stages in China and India. In order to spell out the transmission mechanism in the East Asian 'Miracle', it was also customary to quote the Flying Geese theory by K. Akamatsu, or R. Vernon's Product Cycle hypothesis. The former offered a convenient device to describe the historical process of technology transfer, again in whatever sense, from Japan to South Korea and Taiwan, and from Asian NIES to Southeast Asian economies. Likewise, the latter was utilized for the explanation of positive roles played by multinationals in these 'late industrializing' economies.

To complete this kind of international transfer process of

technology, it must be assumed that inventions of new technology and products, and presumably the emergence of new leading industries should occur successively and ceaselessly on the side of donors (sellers), and at the same time world market or domestic demand or both continue to assure the needs for the 'obsolete' technology on the side of receivers (buyers). If any of these conditions happen to be insufficient, then the chain of transmission might be broken somewhere. Moreover, it is assumed in these theories that there are no disturbing factors that change or reverse the order of transfer. In these two respects, China is challenging our 'common sense'.

With rapid rise in the general level of skills due to active importation and learning of foreign technology and knowledge, the technological gap between China and other forerunners is becoming narrower and narrower. This is exactly the essence of the 'China Phenomena', which enables the Chinese economists to be proud of the success of their *Kuayue-shi* (Jumping-style) development strategy (see articles in *Zhongguo Renmin Taxue Xuebao*, No.2, 2002). In short, *Kuayue-shi* simply implies the maximum enjoyment of advantages of latecomers, as suggested by A. Gerschenkron. What is new in the context of technology transfer is that the Chinese economy is 'jumping' the stairways upward by swallowing, like a black hole, almost all kinds of technology at a breadth, irrespective of whether they are bland new or obsolete. The shallowness of indigenous technological basis does not pose a serious problem,

since China can be made up for the shallowness through A & M and other methods. Recent reports on the Chinese IT-related enterprises are typical examples of the *Kuayue-shi* acquisition of up-to-date technology. Reversal of transmission orders are observable between China and South Korea, and also the latter and Japan. The flying geese theory is being deprived of its applicability day by day .

(5) Trade Strategy

Neoclassical success stories of South Korea and Taiwan rest on the supposition that, at the time of the Oil Crisis of 1973, their governments changed the trade strategies from *export substitution* to *trade promotion*. The point here is the presumption that the governments adopted new policies that conform to the world trend and make the most of price mechanism. Although interpretations of this sorts carve in relief portraits of wise and intelligent leaders and bureaucrats, detailed scrutiny into the actual policy measures taken in these economies reveals that, contrary to the assertion by neoclassical .economists, more complex and cordial set of incentives were given to exporters not in the export-substitution period but throughout the trade-promotion period (Tamura [1998a]). The full-scale trade liberalization and privatization proceeded keeping in step with the erosive process of the authoritarian regimes in late 80's.

Any shift of the trade strategy in the heavily

export-dependent economies must be carried out by balancing the foreseeable costs and benefits. Otherwise, it may result in serious social conflicts, which may in cases lead to a regime change. Accordingly, it should be clearly distinguished from routine choices of discretionary policy measures. Moreover, when we are to assess the effectiveness of export incentives, we should deal with the incentive system as a whole, or as a package, rather than trying to estimate the effect of an individual policy measure.

Chinese membership to WTO in 2001 and persistent demand from outside to appreciate the *yuan* value have become a heavy pressure to the Hu Jintao administration in the direction of financial liberalization and floating of the exchange rate. For Japan, Korea and Taiwan, this was the road they once followed. For Korea, Indonesia and Thailand, this was the path of hasty financial liberalization that led to the turmoil at the close of 1997. Whatever may happen, Chinese leaders seem to be prepared to cope with the situation in which *Renminbi* cannot say 'No' any longer (Tong [1998]).

(6) Domestic Diaspora.

The Chinese Communist Party (CCP) took a step further to put business managers up for one of the *Sange Daipiao* (Three Representatives). The 'gradualist' reform China has hitherto pushed ahead could be characterize by (a) two operation fields (state sector and industrial economy), (b) Marketization without

privatization, and (c) industrial reformation into two groups, i.e., winners and losers (Naughton[1997]). The two operation fields lead us to the problem of state-business relationship peculiar to China, as distinct from other East Asian societies. What should be noted here is the fact that business leaders, irrespective of ownership types and locations, are forced to sit for a daily exam on their performance in the market place, and accordingly the Chinese reform for marketization is not directly connected with privatization of the state sector.

On the other hand, income difference between winners and losers has been enlarged to such an extent that to neglect the losers' complaint and dissatisfaction could threaten the legitimacy of the one-party rule by CCP. Riots in farm villages and *mingong* (migrant workers) in cities are typical seeds of discord. Domestic migration is taking in two perpendicular directions: from North to South and from Midland to Coast Sides.

Indeed the accumulated *mingong* and potential jobless laborers in big cities imply the existence of the Harris-Todaro type duality within the urban areas, but this does not verify the transition of farm villages from the traditional world of classical economics to the neoclassical stage at which marginal productivity principle holds even in agriculture, as expected by W. Arthur Lewis and his followers (Meier [1984]). Rather, Managers of village and town companies have also tried to maximize profits, causing anxiety to outside observers concerning the coming food shortage, not to speak of the energy problem at

hand.

While mammonism spreads among urban and rural youth, many Chinese lost to business chance tend to throw themselves on religions and superstitions. The disturbance over *Falingong* in 1999 was unquestionably a symbolic incident. In advanced regions such as Guangzhou and Shenzhen, shortage of skilled labor coexists with enormous number of joblessness (T. Fuller [2005]). Not a few leaders of farmers' associations and labor unions are said to be suffering from loss of identity. Because of these and other reasons, it is beyond prediction whether the Grand Development Projects of the Western Regions, which is intended to lessen the social tensions, work as a sovereign remedy for the difficulties China is now confronted with. The limit to growth might well be set to China both from outside and from within.

§3 South Korean Turmoil after the IMF Bailout

(1) The 1997 Crisis and DJnomics

Economists divide on the causes of the East Asian Crisis in 1997 and the evaluation of Kim Dae Jun Reform Program (DJnomics). As far as the South Korean case was concerned, the contagion landed on the Seoul exchange market after a series of dishonor and bankruptcy of big *chaebol* (conglomerate) enterprises. The direct trigger was withdrawal of mass speculative money, which was accelerated by frozen loans to

Indonesia, and the collapse of that economy made the rumor spread that the next target would be South Korea. However, it is quite easy to realize that some kind of ‘credit crunch’ took place somewhere in the long-inherited tripartite relation of government, banking institutions, and the chaebol managers. The kin relation of the three had been eroded little by little during the course of financial liberalization. Among the lightly suffered in East Asia were Taiwan, Singapore, and China (including Hong Kong), most of them being cautious in liberalizing exchange and financial markets.

The conditions attached to the IMF accommodation were harsh and stern to the Asia’s Next Giant (Amsden [1989]), which had been striving to open up markets for foreign capital in order to obtain the qualification for a seat in OECD. During a series of consultations with the IMF specialists, the South Korean government and the Central Bank succeeded in persuading the IMF specialists that the austerity budget was not a cure-all, and that financial and industrial reforms must be backed up by some measures to stimulate the economy. Along with the Keynesian-style interventions into the exchange market in Malaysia, the South Korean maneuver became a lesson to market fundamentalists of IMF.

DJnomics was composed of compulsory consolidations of financial institutions and production schemes among *chaebols*. American-style management rules were pushed to business enterprises, and mergers and acquisitions by foreign capital

became far easier than before. Despite the mockery naming as Amazonian Corp, female ventures increased suddenly. Militant unionism supported the government that laid stress more on distributive equity than on growth, but opposed to privatize public enterprises. Financial deregulation proceeded along with tightened regulations on business management in the name of market mechanism. Not a few *chaebol* leaders were forced to leave the scene. Retrospectively summarizing, DJnomics resulted in a strengthened oligopolistic power of survived *chaebols* and an enormously high rate of unemployment of younger generations.

(2) High-Cost Syndrome of the ROK Economy

After the V-shaped recovery from the bottom of chaotic depression, the South Korean economy has been still suffering from a persistent stagflation. Withered household consumption and prudent investment in plant and equipment are main causes of the stagnancy. What have prevented the economy to get worse are favorable exports of several items, for example, electronic equipment, automobiles, and ships. Wage-rate rise exceeding the increase in productivity has become a heavy burden to management in those industries where reduction of personnel costs and plant relocation to, say China, are not easy.

The Crisis seems to have not given great impact on the South Korea's dependency of intermediate and capital goods on

Japan. What should be noted is an abrupt increase in imports for domestic use, rather than for re-exportation. On the other hand, income terms of trade started to rise in 1990, while commodity terms of trade, which had been almost stable before the Crisis, began to decline sharply since then. Taking these two observations into account, we can safely conclude that the South Korean consumers are buying foreign products, spending money earned by domestic exporters who have been strived to do business despite the (relatively) lowering export prices.

In view of the current account surplus, we might well expect that South Koreans are enjoying the coming of Rostowian age of high mass consumption. In reality, however, a considerable part of the surplus money might have been flowing out overseas, even if we put aside the operations by the government ,the Bank of Korea, and capital and financial investment abroad by business enterprises. On top of remittance abroad by individuals and financial brokers, relocation of plants to China and other countries are causing capital flight due to their distaste for the low-interest policy. In short, South Koreans are inviting capital from outside and sending the domestic surplus abroad. It was exactly in these situations that the ‘China Shock’ shook them abruptly.

As a result of *Kongdonghwa*, labor coefficients have been consistently declining in major industries, which implies the retarding labor absorption. This is why the V-shaped exodus from the Financial Crisis has been called ‘a jobless recovery’.

According to the survey conducted by the National Federation of Businessmen in September 2004, 45% of firms among 254 are planning to replace domestic investment by investment to China within the coming five years, and those thinking of the other way round are merely 6.1%. Moreover, the Government Statistical Office reported in August 2003 that the 'non-regular' workers amounted to 4.6 million, roughly 32.6% of the total working population. Among the 'non-regulars' are part-timers, leased employees, and presumably Korean workers from China. This means that workers are polarized into two markets: the rigid and costly market for the regulars, and the liquid non-regulars' market for disguised unemployment.

Finally, the Total Fertility Rate (TFR) showed a surprise decline in 2002 to 1.17, lower than the Japan's 1.29 of the same year. This is tantamount to saying that the Pension Program introduced through DJnomics will collapse in the near future. It seems appropriate to call these observations as the 'High-Cost Syndrome' (Tamura [2004]), although one may prefer other expressions such as the 'Korean Disease'.

§4 The Place for Political and Socio-Cultural Elements

(1) Copyright on Institutions

As copyright can not have been set on nationalism (Anderson [1991]), so institutions have been freely borrowed and imitated. Whenever they collide with native customs or

traditions, they can be amended, and in cases tally abolished. Globalization is certain to help spread the common institutional framework among nations, but it does not necessarily mean that rules on market transactions should converge to a single package, say the 'American Standards'. Controversies have been left unanswered over the stimulating and preventive aspects of patent system on economic activities. While nobody questions the role played by the transmission of engineering innovations in spreading industrialism to every corner of the world, we should bear in mind that this transfer mechanism has been endorsed, partly or wholly, by the simultaneous reception of foreign-born institutional settings. Needless to say, one of the most successful and conspicuous example would have been the transmission of 'market system'

We agree with A. Scott when he says that the free market system is a politically constituted organization (Scott [1966]), with a reservation that it is also socio-culturally constituted. Our reservation might be fraught with danger in that it easily leads us either to the Eurocentric Trinitarianism which identifies capitalistic development with civil society (liberal democracy) and Christianity, or to the Weberian cultural determinism of rationality derived from Protestant ethics, or to Fukuyama's Hegelian view on the End of History (Weber [1958] and Fukuyama [1992]). Recall here that these ways of reasoning revived when the Financial Crisis shook East Asia, being dressed in the costume of the 'Asian Values' Controversy. Those who

blamed the East Asian ‘crony capitalism’ were actually based on the Weberian view, and related the fragility of East Asian financial markets directly to deviations from the ‘genuine’ course of development (Tamura[1998b]).

Karl Marx’s economic determinism is a striking contrast with the Weberian view, but Marx has thrown away all the deviations from his stage theory into the garbage box labeled as the Asian Modes of Production. By doing so, he eventually succeeded in formulating the monogenetic causality between the basis and the superstructure. It is simply because we want to acknowledge the multiple causal connections among economic, political, and cultural systems, and accordingly to admit the non-uniqueness of growth paths that we make here much of political and institutional factors in economics and to try to point out the missing links in the traditional theories of development.

(2) Corporatism and State Failures

Thus far, we have examined, mainly in the light of recent experiences of China and South Korea, the effectiveness of analytical tools we have at hand in development theories. Among the remaining topics are development strategy (Hirschman[1992]), roles of education and infrastructure (Tamura [1977], and Tamura & Kuniyoshi [1982]), assessment of industrial policies (Y. Murakami [1999]), and so on, most of them being more or less related to the business-government relationship and the types of political regimes. We leave the detailed discussions

on these topics to References, and propose a tentative analytical framework which seems to serve our present purposes.

Several points are in order. First of all, if we are to concentrate upon the state-business relation, we have to put the socio-cultural elements to the hidden third dimension, keeping in mind their close interrelationship with the former two. Historical and international considerations must be treated in the same way. In East Asian societies for example, Buddhist and Confucius traditions have been entangled with Taoism, Shamanism, and other religious beliefs. Cold war ideology has been another element which has worked as an 'integrating symbol' under the authoritarian regimes. Thus the state-business relationship can be treated in the duality of two 'states' (Fraenkel [1941]), or the interrelationship between political and economic systems. The missing link here is some sort of institutional setting that bridges the two and channels the interdependency. Let us call this Corporatism. In this framework, 'civil society' is not a universal goal of our history, but is nothing more than an important component of the whole society.

Secondly, Corporatism in the above sense is a far more complicated and well-organized machinery than the World Bank Report describes it as 'Contest' (World Bank [1993]). Because of its compulsory but selective nature, Corporatism serves as an establishment which guarantees the patron-client relationship among the leaders of the two worlds. Development strategy,

industrial policies, and many other policy measures are planned, revised, and put in force through consultations within this machinery. Contrary to the images pictured by the World Bank, it does not necessarily mean that government in this context is always 'friendly to markets'. At times, Corporatism works as a hotbed of corruption or as machinery that 'legally' gives the privileged participants the wide variety of rent-seeking opportunities, and thus incorporates intentional biases into the price structure. Establishments across industries in pre-war Japan, the similar organizations in South Korea under the Yushin Regime, and Kuomintang and CCP standing on the controlling command were all well-known examples of completed Corporatism.

Thirdly, levels of analysis must be discerned as far as possible. To estimate functions and performance of individual policy measure is one thing, and to evaluate those of composite policy packages is quite another. If we are concerned with the latter problem and to talk about strategies and policy packages within the present framework of state-business relationship, they must be evaluated in light of the 'governability' of individual government and its planning, coordinating, complementary, and channeling functions. Administrative consistency, or the 'Weberianess' of bureaucrats in North East Asia (NEA) will come on the stage at this point (Haggard [2004]). As far as the march of folly and state failures are concerned (Tuchman [1984] and Jaenicke [1990]), we

have to admit that NEA can hardly be exceptional

Finally, let us note how Corporatism has been forced to transform itself along with political and economic liberalization. Apart from the causal connections between economic development and political plurality (Huntington [1991]), authoritarian regimes collapsed in South Korea and Taiwan coincidentally in late 1980's. Due to the domestic power politics and mistrust in their poor economic performance, however, the two Presidents are now absorbed in recovering their injured dignity.

Corporatism invented to fit well to the authoritarianism is losing conformity to the new parliamentary politics, but, as yet, devices to rule out the inconveniencies and difficulties and to 'institutionalize' anew the alternative routes of interests adjustment have not been found out.. In China, persistent demand for political plurality has not been withered despite the tragedy of Tienanmen in 1989. Putting aside the legitimacy problem of CCP, the gradualist reform strategy has contributed to preserve the Corporatism similar to the one during the Kuomintang rule in Taiwan. In other words, rent-seeking activities are tending to be latent in South Korea and Taiwan, while they are still 'wholesome' in China to the extent that marketization does not imply the retreat of the state (Strange [1996]).

(3) Crisis Theory in the North-East Asian Context

We are now in a position to reformulate the Habermasian

theory of crisis in the NEA context. If one feels uneasy to use the word ‘crisis’, it might well be replaced by some other term that signifies some serious difficulties with which a society is facing. Habermas assumes three system crises and two identity crises which arise from within subsystems. In our reinterpretation, the former could be related to the system structure, while the latter to behaviors of individual actors within each subsystem. Then the Habermasian set of crises are classified as in the following Table, where the identity crisis in economic system and system crisis in cultural system are neglected.

Habermasian Set of Crises

| <i>Subsystem</i> | System Crisis | Identity Crisis |
|-------------------------|--------------------|---------------------|
| <i>Economic System</i> | Economic Crisis | |
| <i>Political System</i> | Rationality Crisis | Legitimation Crisis |
| <i>Cultural System</i> | | Motivation Crisis |

What Habermas had in mind as economic crisis was Marxian-type ‘general overproduction’, but let us dismiss this possibility and conceive of events such as the 1997 Financial Crisis, heavy slumps, and the like. Rationality Crisis (RC) stands for state failures or lack of ‘Weberianess’, as we portrayed above. The distinction between Legitimation and Motivation

Crises is obscure: they are related to shared norms and values, social order, and among others mass loyalty. (Held [1982]). Moreover, Motivation Crisis can arise even in economic and political subsystems. One possible way to escape this difficulty would be to replace Identity Crisis by Identity-Motivation Crisis (IMC), and at the same time, to redefine Legitimation Crisis very narrowly, so as to imply mistrusts in the legitimacy (Legitimacy Crisis, LC) of existing ruling regime and political organizations, as well as collapse of mass loyalty just cited. Then, political crisis consists of two crises, i.e., RC and LC, while IMC becomes a common factor that endangers the whole society, conforming to our suggestions above to put the socio-cultural elements on the third hidden dimension.

The remaining problem is how to set the boundary between economic and political systems. Rather than setting the boundary, we introduce Corporatism as an institutional setting which bridges the two. In order to avoid the trap of cultural determinism, we should construct some sort of politico-cultural and economic-cultural bridges. But these tasks are beyond the scope of this paper.

Let us now summarize our observations on China and South Korea, making use of the modified Habermasian framework. System's crisis to China may be politico-economic. Limit to its growth might be set from outside in the form of demand for exchange-rate adjustment or of other trade conflicts. Or, it may take the form of geopolitical form. Military buildup

earned by growth may endanger the power balance in East Asia and the existing peace-keeping apparatus that encompasses the cross-strait relation and the North-South dialog in the Korean Peninsula. Otherwise, it may come from within, as we examined in Section 2. In any case, economic crisis can easily be translated into socio-cultural and political difficulties, and burst out as a crisis of legitimacy of the CCP rule.

In the South Korean case, legitimacy of the Roh administration was completely damaged by the impeachment of the President. There are several favorite signs for the economic recovery, but they are still too weak to promise the full-scale upturn. The persistent economic stagnancy has been depriving jobless youth and business managers of identity and motivations. Tense political situation and poor economic performance have necessitated the administration to appeal to the diplomatic performance with anti-Japan and pro-North stance.

§5 Concluding Remarks

In this paper, we first examined the extent to which the analytical tools we have in the traditional development theories can explain the recent experiences of China and South Korea. Among the topics we dealt with were Clark's Law, TFP formula, trade strategy, flying geese hypothesis, Lewisian duality model, and market fundamentalism of IMF. In order to make up for

the missing links, most of them being of politico-economic nature, we then introduced Corporatism into the tool box of East Asian development economics. Finally, to put miscellaneous materials on the integrated cooking counter, we proposed to make use of the Habermasian crisis theory, with some modifications necessary to investigate the East Asian societies.

Within the modified framework, System Crisis and Identity-Motivation Crisis are distinguished, and the latter is thought of as common to all subsystems. Political crisis takes the form either of Rationality Crisis or of Legitimacy Crisis. We avoided by doing so the endless chicken-egg type debate over system and behavior. System crisis peculiar to cultural system and Identity-Motivation Crisis in economic system are left unexamined. We finally emphasize the problem of legitimacy of CCP in the case of China, and the High-Cost Syndrome in the Korean case as major seeds of worries and conflicts.

Among the remaining tasks are topics associated with socio-cultural elements in economics. To be sure, the Habermasian theory seems to be insufficient to find appropriate places to which these elements are to be appointed. Our tentative idea here is to classify them into threefold hierarchical stratum. Recall that we made a frequent point of the importance to distinguish the levels of analysis and assessment. If we are to conceive of a three-storied tower with policies (policy packages), institutions and regimes from top to basis, then in the same token we can safely imagine a socio-cultural tower with

customs at the highest floor, values in the middle, and consciousness on the ground. Thus we will be able to discuss interrelationships between policies and customs, between institutions and values, and between regime types and social consciousness. Unfortunately, these are also tasks to be left for future study.

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